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Compliance Corner: Expanding Your CRA Reach with CD Banks and CDFIs

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“Do well by doing good.” This thought aptly describes partnerships that national banks make with Community Development Financial Institutions (CDFIs), including community development (CD) national banks. CD investments, loans, and services with CDFIs that primarily lend or facilitate lending in low- and moderate-income (LMI) areas, or to LMI individuals in order to promote community development, receive positive CRA consideration.

While most bankers may think of investment opportunities first when establishing a partnership with a CDFI, other activities are also beneficial to both parties. For example, providing CD services to a CDFI will result in positive CRA consideration under the Service Test. In the article “City First Bank Serves Neglected Neighborhoods with Help from ‘Win Win’ Bank Partnerships,” *City First Bank of DC* (a CD national bank and certified CDFI) discusses its partnership with Allfirst Bank. In addition to its monetary investment, an executive officer from Allfirst Bank serves as chairman of the credit committee and sits on its board of directors.

Another way to partner with a CDFI is to set up a correspondent banking relationship to buy and sell loans. A CDFI then could buy participations in larger credits than it normally could originate due to its lending limits and expertise constraints. These participations can help improve the CDFI’s interest income, as well as diversify its loan portfolio and credit risk. Alternatively, CDFIs could sell CD loans to banks that help them meet their CRA obligations under the Lending Test.

To expand your CRA reach, an investment in a CDFI or CD bank is a great place to start. A national bank may make an equity investment in a CDFI or CD bank under the authority of 12 CFR 24. This can help the investing bank expand its CRA reach into LMI areas or to LMI individuals within its assessment area -- or in the broader statewide or regional area -- that it otherwise might have difficulty reaching.

When a national bank makes a qualified investment in a CDFI or a CD bank, it may receive positive CRA consideration under the Investment Test, or Lending Test, or both! Here’s how it works (see exhibit below): A national bank makes a \$100,000 equity investment in a CD bank (or its holding company), located in its assessment area that primarily lends in LMI areas to promote community development. The bank has a \$100,000 qualified investment.

Alternatively, the investing bank may opt to receive positive CRA consideration under the Lending

Test for the pro-rata share of the CD loans originated or purchased by the CD bank during the investing bank's CRA evaluation period. Because the investing bank's equity investment of \$100,000 represents one percent of the CD bank's \$10 million capital base, the investing bank may receive CRA consideration for one percent of the CD loans originated/purchased during this CRA evaluation period. If the CD bank originated/purchased \$15 million in CD loans during this period, the investing bank would receive CRA consideration for \$150,000 of CD loans, nicely leveraging its \$100,000 equity investment.

The third option is for an investing bank to receive consideration under a combination of the Investment and Lending Tests. Continuing the facts from the above example, the \$100,000 equity investment represents one percent of the CD bank's capital. The bank's CD assets of \$30 million consists of \$12 million in qualified CD investments and \$18 million in CD loans, representing 40 percent and 60 percent of total CD assets, respectively. Under this approach, \$40,000 of Investment Test credit is earned based on the fact that CD investments represent 40 percent of the institution's CD assets. The Lending Test credit is based on the CD loans originated during the investing bank's CRA evaluation period as a percentage of total CD assets.

For additional information, please visit OCC's CDFI and CD Bank Resource Directory on the Community Affairs Web page at <http://www.occ.treas.gov/cdd/cdresourcedir.htm> or contact the Community Development Division at (202) 874-4930.

CRA Credit Options for Investments in CD Intermediaries

CD Bank Profile

CD Investments = \$12 million (40% of total CD assets)

CD Loans = \$18 million (60% of total CD assets)

-Capital = \$10 million

Investment Test: Actual amount of the investing bank's \$100,000 equity investment = \$100,000

Lending Test: Pro Rata Portion of CD Loans = \$150,000 [\$15 Million CD Loan Orig. during the CRA Eval. Period] x [\$100,000 investment ÷ \$10 million capital]

Investment & Lending Test: \$40,000 Investment Test Credit + \$90,000 Lending Test Credit = \$130,000

Investment Test Portion: 40% of \$100,000 Investment = \$40,000

Lending Test Portion: \$90,000 [\$15 Million CD Loans Orig. during CRA Eval. Period] x [(60% of \$100,000 Investment) ÷ \$10 Million Capital]

Ways to Receive CRA Consideration for Supporting CDFIs

- Subordinated loan
- CD loan participations
- Certificate of deposit
- Grant contribution
- Stock or equity investments in a CD bank or CDFI (or its holding company)
- Involvement on an advisory board, credit review committee, or as a director
- Providing expertise, consulting, or training to lending staff
- Establishing correspondent banking relationship for loan business